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Macroeconomic policy questions: external debt crisis and development

Implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006)

Third United Nations Conference on the Least Developed Countries

Follow-up to the International Conference on Financing for Development

Letter dated 13 October 2003 from the Permanent Representative of Italy to the United Nations addressed to the Secretary-General

I have the honour to transmit to you herewith a document entitled "Italy's Contribution to the Enhanced HIPC Initiative" (see annex).

I should be grateful if you would have the present letter and its annex distributed as a document of the fifty-eighth session of the General Assembly, under items 91 (e), 98, 102 and 104, and as an input to the high-level dialogue as provided in General Assembly resolution 57/250.

(*Signed*) Marcello **Spatafora**
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Annex to the letter dated 13 October 2003 from the Permanent Representative of Italy to the United Nations addressed to the Secretary-General

ITALY'S CONTRIBUTION TO THE ENHANCED HIPC INITIATIVE

HIPC Initiative

The Italian Government is a strong supporter of the Enhanced HIPC Initiative, and has decided to offer voluntarily to HIPC countries additional debt relief that goes beyond the terms of the initiative agreed at the 1999 G8 Summit in Cologne, with the aim of increasing financial resources for the eradication of poverty, in pursuance of the Millennium Development Goals (MDGs).

In the first place, Italy has decided to add the cancellation of 100% of the 'post-cut-off-date' commercial credits (i.e. debt non eligible to cancellation) to the cancellation of 100% of the 'post-cut-off-date' aid credits, as decided in Cologne, with an avant-garde position in this respect.

Furthermore, the Enhanced HIPC Initiative asks for the cancellation of 90% of the debt 'pre-cut-off-date'(i.e. eligible debt). Italy goes beyond this requirement and starts to apply the cancellation of 100% of the debt (and not 90%) from the first agreement on 'interim debt relief' (i.e. once the decision point is reached): the remaining debt is then cancelled at the 'completion point'. Therefore, the HIPC countries stop servicing their debt to Italy as soon as they reach the 'decision point'.

Italy's commitment within and beyond the Enhanced HIPC Initiative framework can be summarized as follows:

- Cancellation at the 'decision point' of 100% (and not just 90%) of debt service payments for commercial and aid credits (both 'pre-cut-off-date' and 'post-cut-off-date');
- Cancellation at the 'completion point' of 100% (and not just 90%) of aid credits (both 'pre-cut-off-date' and 'post-cut-off-date');
- Cancellation at the 'completion point' of 100% (and not 90%) of commercial credits (both for 'pre-cut-off-date' and 'post-cut-off-date').

In the next future Italy is committed to cancel a further US$ 3 billion of HIPC countries' debt: on top of the US$ 1,6 billion already cancelled, up to a total of about US$ 4,5 billions. Out of the US$ 4,5 billion, about US$ 1 billion represents the additional debt relief granted beyond the Enhanced HIPC Initiative.

Italy's commitment within the G7/G8 framework

At the G8 meeting held in Evian in June 2003, Italy has reaffirmed its commitment:

- To implement the HIPC initiative, asking the IMF and WB to identify the obstacles that prevent eligible countries from benefiting from the cancellation of debt, and to propose measures to overcome them;
- To encourage the involvement of all creditors (official and commercial) to the HIPC initiative;
- To monitor the financial needs of the HIPC Trust Fund;
- To ensure debt sustainability in HIPC countries exposed to exogenous shocks, even after reaching the 'completion point'.
- To encourage other G7/G8 members to cancel 100% of the HIPC countries' debt, both for pre and post-cut-off-date;
- To ensure that the topping up of assistance targets exclusively the poor indebted countries that at the completion point still have problems of debt sustainability;
- To pursue the 'Evian Approach': this approach allows attention to be drawn, after the HIPC countries, to IDA-only countries. The latter countries are just as poor as the HIPC, but their debt has been declared sustainable by the IFI's and therefore not eligible to the HIPC initiative;
- To sustain new debt restructuring mechanisms for countries which face temporary financial crisis.

Italy's Implementation of the Enhanced HIPC Initiative

At present, Italy's implementation of the enhanced HIPC initiative can be summarized as follows:

Multilateral agreements:

- From the year 2000, Italy signed 25 multilateral agreements: 17 are interim debt relief agreements; 8 are final eligible debt cancellation agreements. Other 5 agreements have been concluded with HIPC Countries that received a pre-HIPC debt treatment

Bilateral agreements:

- From October 2001 to September 2003, 25 bilateral agreements with HIPC countries have been signed:

-14 bilateral agreements on interim debt relief;
- 4 bilateral pre-HIPC agreements;
- 7 bilateral agreements on final cancellation of debt.

Debt Swaps:

According to the Paris Club's most updated data, Italy has been the most active member in the years 2000-2002 with regard to debt swaps agreements from aid credit.

Annex: Italy's debt cancellation October 2001-September 2003.

ITALY'S CANCELLATION OF DEBT (OCTOBER 2001/SEPTEMBER 2003)

COUNTRY	DATE	LAST MULTILATERAL AGREEMENT AT THE PARIS CLUB	TOTAL DEBT CANCELLED BY THE PARIS CLUB	DEBT CANCELLED BILATERALLY		
			US $ mill	US $ mill	Euro mill	%
BENIN	8/10/02	24/10/00	5.24	2.61	2.66	44.3
BOLIVIA	3/6/02	10/7/01	685.00	69.85	74.25	10.2
BURKINA FASO	12/11/02	24/10/00	1.45	0.45	0.51	31.0
BURKINA FASO	11/03/03	20/6/02	39.00	12.84	11.85	32.8
CAMEROON	23/10/02	24/1/01	1,300.00	49.70	51.05	3.8
CHAD	23/09/02	13/6/01	15.00	1.85	1.89	12.3
ETHIOPIA	5/6/02	5/4/01	130.00	10.31	10.99	7.9
ETHIOPIA	21/03/03	18/4/02	35.00	25.44	23.52	72.7
GHANA	12/12/02	16/5/02	160.00	5.12	5.81	3.2
GUINEA BISSAU	21/03/03	26/1/01	141.00	94.17	89.07	66.8
GUINEA CONAKRY	22/10/01	15/5/01	151.00	15.93	17.87	10.5
MALAWI	17/6/02	25/1/01	71.00	0.23	0.26	0.3
MALI	23/10/02	25/10/00	3.87	0.03	0.03	0.8
MALI	4/9/03	12/3/03	155.00	1.05	0.98	0.7
MAURITANIA	24/10/02	16/3/00	99.00	0.08	0.09	0.1
MAURITANIA	24/10/02	8/7/02	203.00	0.22	0.25	0.1
MOZAMBIQUE	11/6/02	17/11/01	2,234.00	525.30	557.30	23.5
DEM. REP. CONGO (1)	25/04/03	13/9/02	4,640.00	403.55	370.40	8.7
SENEGAL	25/11/02	24/10/00	22.00	6.53	7.23	29.7
SIERRA LEONE	22/3/02	16/10/01	22.00	4.86	5.53	22.1
SIERRA LEONE (2)	11/03/03	10/7/02	-	16.61	15.41	0.0
TANZANIA	10/1/02	14/4/00	711.00	45.10	50.48	6.3
TANZANIA	18/10/02	17/1/02	973.00	132.80	136.41	13.6
UGANDA	17/4/02	12/9/00	147.00	126.75	142.79	86.2
VIETNAM (3)	########	-	-	20.51	20.66	-
TOTAL			11,943.56	1,571.89	1,597.29	13.2

(1) Pre-HIPC Agreement under the so-called "Naples Terms": 67% cancelled and the remaining amount (USD 441,36 milioni/EURO 405,10 milioni) rescheduled.
(2) Total amount rescheduled at the Paris Club not avaliable being Amendment to the previous Agreement dated 16.10.01.
(3) Partial cancellation of aid credits according to art. 5 of the Law 209/00 (natural disasters and serious humanitarian crises).